

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-04 ISO-00 SWF-01 AID-05 CEA-01 CIAE-00

COME-00 EB-04 FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01

SP-02 STR-01 TRSE-00 LAB-01 SIL-01 SAM-01 OMB-01 SS-20

NSC-05 L-01 DRC-01 /070 W

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7621

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS

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PASS TREASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION ADOPTS DRAFT REGULATION REGARDING PROPOSED  
COMMUNITY BORROWING FROM ARAB COUNTRIES

REF: A. EC BRUSSELS 7191 B. EC BRUSSELS 7122

C. EC BRUSSELS 7068

1. SUMMARY: THE EC COMMISSION HAS FORWARDED TO THE COUNCIL

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A PROPOSED GENERAL REGULATION AUTHORIZING

THE COMMUNITY TO BORROW FUNDS ON THE INTERNATIONAL CAPITAL MARKETS. AT ITS OCTOBER 21 MEETING THE FINANCE COUNCIL WILL TAKE UP THE PROPOSED REGULATION WHICH WOULD ESTABLISH THE OPERATING PRINCIPLES FOR BORROWING. OUR SOURCES ADVISE US THAT THE FRG HAS DIFFICULTIES WITH THE PROPOSED REGULATION BECAUSE IT LACKS SPECIFICITY ON THE MAXIMUM AMOUNT OF EACH COUNTRY'S GUARANTEE. END SUMMARY.

2. THE EC COMMISSION ADOPTED ON OCTOBER 10 A DRAFT GENRAL REGULATION CONCERNING THE PROPOSED EUROPEAN BORROWING FACILITY WHICH THE FINANCE COUNCIL WILL CONSIDER ON OCTOBER 21. (ON A CONFIDENTIAL BASIS WE HAVE OBTAINED COPIES OF THE DRAFT REGULATION; COPIES ARE BEING POUCHED.) EVEN IF THE COUNCIL AGREES INPRINCIPLE, PROCEDURAL REQUIREMENTS WOULD DELAY ESTABLISHING A BORROWING FACILITY FOR AT LEAST SEVERAL MONTHS.

3. THE COMMISSION'S PROPOSAL SETS FORTH SEVERAL GENERAL PRINCIPLES: 1) NO FIXED AMOUNT WOULD BE SET IN ADVANCE FOR THE BORROWINGS; 2) THE BORROWINGS WOULD ONLY BE UNDERTAKEN IF A MEMBER STATE ASKED THE COMMUNITY FOR A LOAN; 3) THE COUNCIL WOULD HAVE CONTROL OVER THE FACILITY AND WOULD DECIDE ON EACH LOAN ON A CASE BY CASE BASIS; 4) THE COUNCIL WOULD ESTABLISH THE TERMS OF A LOAN AND ECONOMIC CONDITIONS WHICH THE BORROWING COUNTRY WOULD HAVE TO ABIDE BY; 5) THE BORROWING WOULD BE IN THE NAME OF THE COMMUNITY AND THE COMMISSION WOULD CARRY OUT OPERATIONS THROUGH A DESIGNATED AGENT; AND 6) A LOAN WILL BR REPAYED IN THE SAME CURRENCY OR UNIT OF ACCOUNT IN WHICH IT WAS ISSUED. THE PROPOSED REGULATION WOULD BE EFFECTIVE FOR FIVE YEARS.

4. AT THE LAST COUNCIL MEETING (REFS A & B), THE LIMITED OFFICIAL USE

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FRG SOUGHT ASSURANCES THAT THERE WOULD BE A SPECIFIC CEILING TO ITS MAXIMUM GUARANTEE LIABILITY. THE MONETARY COMMITTEE IS NOW TAKING UP THE GUARANTEE ISSUE AND EXPECTS TO RESOLVE SATISFACTORILY THIS ISSUE. OUR GERMAN CONTACTS, HOWEVER, ARE NOT NEARLY SO OPTIMISTIC. THERE ARE STILL A NUMBER OF TECHNICAL DETAILS YET TO BE WORKED OUT.

6. THE FRG CONTINUES TO BE CONCERNED THAT IT MIGHT ULTIMATELY HAVE TO REPAY MOST OF A COMMUNITY BORROWING SHOULD AN ECONOMIC CATASTROPHE CAUSE OTHER STATES TO DEFAULT ON THEIR LOAN PAYMENTS. THE ARABS WOULD LIKELY WANT TO LEND IN DOLLARS AND ONLY THE FRG HAS SUFFICIENT DOLLAR RESERVES TO MEET THE COMMUNITY'S OBLIGATIONS SHOULD A SRISIS OCCUR. CONSEQUENTLY, THE FRG WANTS SPECIFIC ASSURANCES ON THE LIMITS OF ITS GUARANTEE LIABILITY; IT IS NOT YET SATISFIED WITH THE PROPOSED SYSTEM OF DISTRIBUTING GUARANTEES AMONG MEMBER STATES. (SEE REF C). THE

COMMISSION IS ENDEAVORING TO WORK OUT A FORMULA WHICH WILL MEET THE FRG'S DEMANDS BEFORE THE OCTOBER 21 MEETING. GREENWALD

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